March 27, 2012

Small Cap | Europe | Germany

DR. KALLIWODA
RESEARCH GmbH

Company Analysis

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Equity Research

Update

Buy

Target Price: EUR 20.01

PSI AG

Production Potential Unlocked -- Energy Remains in Waiting Position

Overview

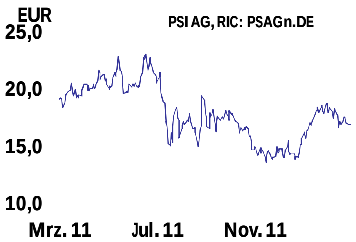
Industry:		IT Services & Software
Country:		Germany
Reuters:		PSAGn.DE
WKN		A0Z1JH
Website:		psi.de
Current Price:		17,00
	High	**Low**
Price 52W.:	23,05	13,66
Market Cap. (Mill. EUR)		266,9
No. Of Shares (in Mill.)		15,7

Shareholders	
Free Float	60,24%
RWE Rheinwestfalen Netz AG	17,77%
Employee Consortium	9,35%
Harvinder Singh	8,10%
Allianz Global Investors	4,54%

Performance	
4 Weeks	-6,7%
13 Weeks	16,4%
26 Weeks	-3,1%
52 Weeks	-11,5%
YTD	15,5%

Dividend	**EUR/Share**	**in %**
2010	0,23	51%
2011E	0,25	53%
2012E	0,31	53%
2013E	0,60	53%
2014E	0,78	53%

52-Week Chart



Analyst Coverage

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- Order inflows decreased by 2% to €174m for the year just below management guidance of €180m. Management acknowledges a deviation from the usual trend of an uptick in Q4 orders and assumes a delay into the first half of 2012. Order backlog increased to a record €112m. Revenues and operating income were broadly in line with management guidance and our expectations increasing 6.8% to €169.5m and 12% to €10.7m respectively.

- Operative Cash flow grew 17% to €13.1m and long-term debt was repaid. The liquidity cushion increased to €33.8m. Management expects operative cash flow to turn out positive in 2012. Further investments in product development will be financed by operations and pilot projects. The company targets new acquisition for which it could rely partially on external financing depending on the size of the acquisition.

- Revenues in the energy segment rose 5.2% to €68.9m. The strong performance in the gas and oil division, which profited from an expanded activity with Gazprom, was offset by the investment lockjam of energy suppliers in the energy division. Further investments in the product basis lead to a decline in operating income to €4.0m from €4.7m a year ago. Revenues in the production segment increased by 16.8% to €78.6m, while the operating income rose to €5.5m from €1.3m. Whereas last year's result were influenced by R&D expenditures in PSImining, this year's result included the gains from the product with which it successfully entered the Chinese market. In the infrastructure segment, adjusting for effects of the sold telecommunications unit at the end of 2010, revenues increased slightly to €22.1m. However earnings disappointed at €3.1m.

- We view PSIs competitive position as strong and the result of the company's focus on its core competency in network control flow systems and experience in this area. In our view its dominant market position, innovation ability, specialized workforce and ability to react flexibility given its size and software focus provide valuable competitive advantages as well as entry barriers particularly in the German energy market. PSI stands well positioned to profit from its opportunities leading to increasing revenues and margins.

- We view the company's current development in line with our expectations and the outlook given in our investment case remains intact. As a result our valuation based on the DCF remains unchanged with a target price of €20.01 for the next twelve months. Compared to the current stock price level our rating approach results in the recommendation BUY. We see the main risk to our investment case in the company not living up to the expected success in within the German energy infrastructure segment.

Key Forecasts

EUR m	2012e	2013e	2014e	2015e	2016e	2017e
Revenues	181	208	228	247	264	280
EBITDA	21	33	39	44	51	55
EBIT	14	26	31	35	41	45
Net Income	10	18	22	25	29	32
EPS	0,6	1,2	1,4	1,6	1,9	2,0
BVPS	5,0	5,9	6,7	7,5	8,6	9,6
CFPS	0,9	1,4	1,8	2,0	2,3	2,5
RoA	5%	9%	10%	10%	11%	11%
RoE	5%	9%	10%	10%	11%	11%
EBIT Margin	8%	12%	13%	14%	15%	16%

Company Analysis

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Inhalt

1. Company Profile

PSI AG is a group company with almost 1500 employees developing and distributing software product solutions for process control. These solutions automate complex core processes of PSI customers in the segments energy, production and infrastructure management. The company was founded in the year 1969. It operates at numerous German and expanding international sites in Europe, Asia and North America. PSI develops software products and complete systems for the operation of large energy networks and complex production and logistics processes with the objective to design customers' value creation processes more efficiently. In the segment energy management systems PSI provides solutions for operations management, network utilization, pipeline management, leakage detection and localization, portfolio management, energy trading and distribution. The segment production creates optimization and control-technical solutions for production, telematics, logistics, metals and mining. In the infrastructure segment the company supports solutions for traffic systems.

2. SWOT Analysis

STRENGTHS

Focus on Core Competencies with Decades of Experience: PSI‘s selects market niches in diverse sectors around the globe where its core competencies gives it a significant competitive advantage.

Dominant Market Position: PSI is the quality and volume leader in many of its key growth areas namely energy, gas & oil, metals, mining and infrastructure.

Innovation: PSI is a technology leader with a high speed of innovation setting trends in the company’s target markets enjoying a first mover advantage in many of them. Its products are of high functionality, complexity and carry many unique features.

Pilot project approach: When entering new product and geographic markets the company works together with sector leader in the form of pilot projects. Performing the research and development decentralized at the location of demand translates into a close customer relationship, a gain in sector knowledge diminishing market entry risk, as well as the mitigation of financial risk.

Highly Specialized Workforce: Over 80% of its employees have a universal degree combining strong attributes in geophysics, mathematics and software development. PSI invests heavily in the training of its employees and collaborates with universities. Facing a tight labor market supply the company moves part of the routine software development to Eastern European.

Technology Platform: The Java based platform enables an efficient knowledge transfer, the standardization of core software components which fastens development and frees engineering capacity.

Sound Financial Position: The company enjoys a sound financial position enabling it take opportunity of potential attractive acquisitions in order to enhance its technology or enter markets.

WEAKNESSES

Buyers Force: PSI main customers operate in capital intensive sectors which naturally consist of a few large players. PSI itself is a medium sized player resulting in an unfavorable negotiating position. However a resulting pricing power of its customer is lessened by the facts that software expenditures should resemble a smaller portion of PSI customers overall budget, that PSI produces high-quality products that make a customer’s operation more efficient translating in fast amortization, and PSI’s complex products are mainly located in important parts of the value chain where quality is more important than price.

Low Maintenance and Licensing Software: Despite being in the process of transforming itself into a software company, maintenance and licensing related revenues do not yet play a relevant part in the revenue mix. The company’s future development heavily relies on winning new customers.

Business Cycle Risk: PSI’s customers are mainly from very cyclical sectors. The exposure to business cycle risk is somewhat diminished by the fact that the company delivers products mainly related to efficiency and cost cutting gains.

OPPORTUNITIES

New Markets and Product Developments in the Energy Segment: The „Energiewende“ gives PSI the potential to achieve scale effects by move its existing product line from the high voltage system to lower network levels. Additionally the demand for new software solutions such as volatility and resource software components, gas network control systems and software solutions for energy storage systems will increase.

New Markets and New Product Developments in the Production Segment: The company introduced numerous new product developments for new markets such as PSImining and solutions for the turbine manufacturing and aircraft maintenance sectors. In the automobile sector new product developments should lead to upgrades.

Export Growth: PSI is focusing on Eastern world markets as it envisions there the greatest growth potential in energy, production and infrastructure while facing currently low local competition. Although we view the opportunities with PSI's exports options as overweighing, new risks exposures will have to be managed. A positive effect besides the potential larger revenues and scale effects is the diversification away from a sole dependency on the German market. The distribution strategy is based on winning reference customers in target markets.

THREATS

Increasing Rivalry among Competitors in the Energy Infrastructure Market: Large hardware suppliers recently acquired PSI's software competitors. On one hand this permits them to differentiate themselves from fellow hardware suppliers. If on the other hand the intention was to gain control of the energy software market then rivalry will intensify e.g. by price competition or hardware suppliers locking their systems to alien software providers. Management notes that PSI enjoys greater economic independence in acquiring software related contracts relative to its software competitors which are now tangled up in powerful hardware divisions.

New Entrants in the Dynamic Energy Infrastructure Market: The segment's potential came to attention to traditional to the energy segment extraneous companies signaling first efforts to grab a piece of the energy infrastructure investment cake.

3. Investment Case

The key development to be watch will be PSI's success in the energy infrastructure game in Germany. In our view energy network control software systems come along with high switching costs and it is now that energy providers will be willing to switch suppliers or decide to stick to them for the long-term. Only the winners of the game face attractive upgrades and maintenance revenues. As the number of energy networks can be counted for by one hand, there is not much room for many survivors. Coming out as a winner will also ease the way to exports of energy products to countries that follow Germanys approach in the long-term. Many other growth opportunities besides energy exist for PSI, however do to the stated reasons a large part of the company's value depends on its success in the German energy segment.

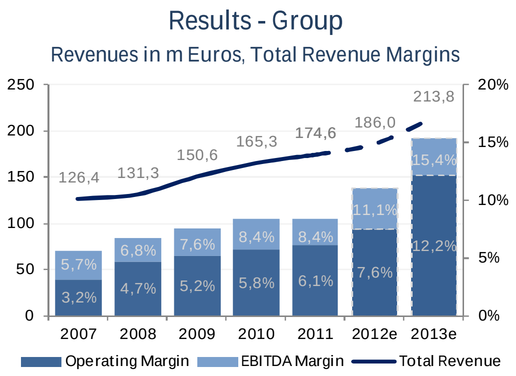
Management expects not only increasing revenues from its growth opportunities but also to attain significant margin improvements. The main drivers of the later are achieving effects of scale through exports, pursuing the transformation to a pure software company, lower average labor costs by having an increasing share of its labor pool in target export markets which naturally face low labor costs and efficiency improvements from the technology platform. Management expects to increase revenues on an average of 8% a year, while raising EBIT margins by 1% to 2% a year until 2015. At that time 800 of the then 2000 employees are expected to work in export markets. It plans to attain 65% of its revenue from growth regions Brazil, Canada, Eastern Europe, Russia, Asia, Middle East and Turkey. For the year 2012 the company gave guidance for €190m in new orders, €180m revenues and an EBIT in between €13m-€16m.

We view PSIs competitive position as strong and the result of the company's focus on its core competency in network control flow systems and experience in this area. The company proved to be able to spot market trends and to position itself accordingly to profit from these trends. In our view its dominant market position, innovation ability, specialized workforce and ability to react flexibility given its size and software focus provide valuable competitive advantages as well as entry barriers particularly in the German energy market. PSI stands well positioned to profit from its opportunities and reach its formulated goals.

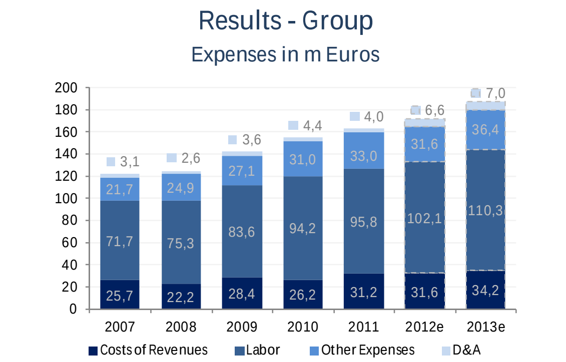
4. Current Developments

Order inflows decreased by 2% to €174m for the year just below management guidance of €180m. Management acknowledges a deviation from the usual trend of an uptick in Q4 orders and assumes a delay into the first half of 2012. Order backlog increased to a record €112m. Revenues and operating income were broadly in line with management guidance and our expectations increasing 6.8% to €169.5m and 12% to €10.7m respectively. In the third quarter 2011 management had lowered its outlook for the full year given the lower order inflow, higher investments in the energy segment and a delayed acquisition which proceeded in 2012 expected to add to operating income. The financial loss came in higher leading to an EBT and net income for the year slightly lower than our anticipation.

Operative Cash flow grew 17% to €13.1m and long-term debt was repaid. The liquidity cushion increased to €33.8m. Management expects operative cash flow to turn out positive in 2012. Further investments in product development will be financed by operations and pilot projects. The company targets new acquisition for which it could rely partially on external financing depending on the size of the acquisition.



Source: PSI AG, Dr. Kalliwoda Research

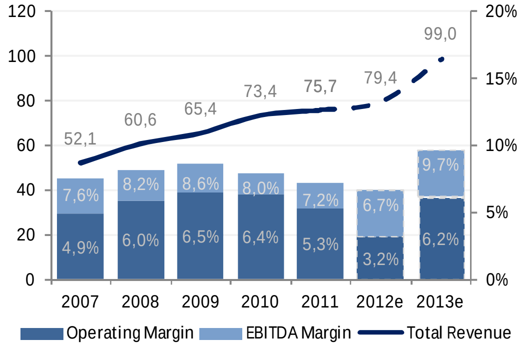


Source: PSI AG, Dr. Kalliwoda Research

The drivers of margin expansion show partially a mixed picture but overall PSI look to be on track:

- The goal formulated for 2012 to achieve over 50% of sales in export markets is already reached. Export in order inflows dropped slightly from a share of 51% in 2010 to 45% in 2011. Asia is the now main export market with a share of 18% on order inflows. PSI plans to expand its operations in Brazil where currently only a handful people are located. The operating expenses increase is mainly driven by a rise of traveling costs and marketing, a sign of an increasing sales activity.
- On a positive note related to PSI's revenue mix consisting of a larger share of recurring and software revenue, license sales rose by over 40% increasing their share on revenues to 9%, whereas maintenance revenue held their share steady at about 21%. However the share of overall software sales decreased from 86% to 82% at €138m also due to a large increase in sales from goods to €16.7m in 2011 from €12m in 2010. At the same time expenses for goods stayed steady at €13.5m, while service costs rose 41% from a year ago to €17.7m. Management notes that the increase in the later is due to a larger reliance on qualified freelancer. It expects the trend of increasing share of license revenue and service costs to continue.
- Labor costs and the number of employees both rose, but average labor costs based on full-time employees fell from €66t to €64t a year ago.

Company Analysis



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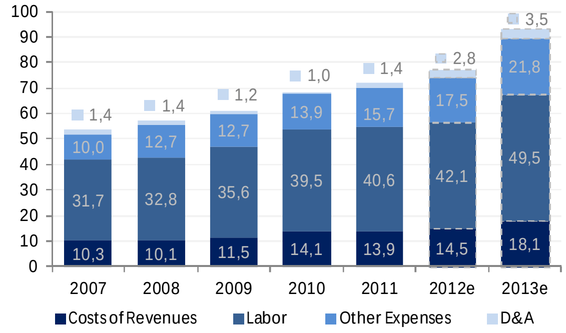

Source: PSI AG, Dr. Kalliwoda Research

Revenues in the **energy segment** rose 5.2% to €68.9m. The strong performance in the gas and oil division, which profited from an expanded activity with Gazprom, was offset by the investment lockjam of energy suppliers in the energy division. Further investments in the product basis lead to a decline in operating income to €4.0m from €4.7m a year ago.

The timing of the kickoff of energy infrastructure investments will depend on the government's ability to diminish uncertainty by deciding on the details of implementation of the „Energiewende", the energy mix, and subventions. We note that size of the later might have negatively correlated effects on the price sensitivity of utilities to products of infrastructure providers. The financial health of both energy suppliers and governments also plays a role with the utilities likely loosing valuable cash flows from their nuclear business. Pressure on both parties could arise from the growth of renewable energies leading to bottlenecks in the energy network capacity increasing the likelihood of blackouts. Apparently this does not seem likely in the near term as in the latest cold period Germany even managed to export energy to France. A decision to tilt the renewable energy mix towards wind will be favorable to PSI as the company focuses on the mid voltage system and wind apparently is the renewable energy source leading mostly likely to capacity problems in the current infrastructure environment. Management expects the infrastructure investments rollout to begin in late 2012 or beginning 2013. A later timing is somewhat critical to PSI as it gives its competitors more time to catch up and the likelihood increases that PSI invests in product development that later proof to be unprofitable.

Investments in the segment related to the market entry in Asia and the development of new products. One such tool is the smart telecontrol unit which is developed in collaboration with energy suppliers. It is able to govern micro grids, measure and pass on data to the network control systems while being equipped with security functions. The product is attractive to PSI because the company will be able to constantly upgrade the units with smart algorithms leading to recurring software revenues. In February 2012 PSI acquired the Swiss company time steps AG which comes with a strongly referenced product TSenergy. The IT system is able to analyze energy portfolios with complex features based on stochastic dynamic programming rather than the usual option based approaches. The product will be able to cope with energy storages bringing another new unique feature to PSI energy software solutions.

Near term catalysts for the segment are orders of energy network control solutions and volatility software for the medium voltage network triggered by a growth in wind energy and export related to resource management energy software.

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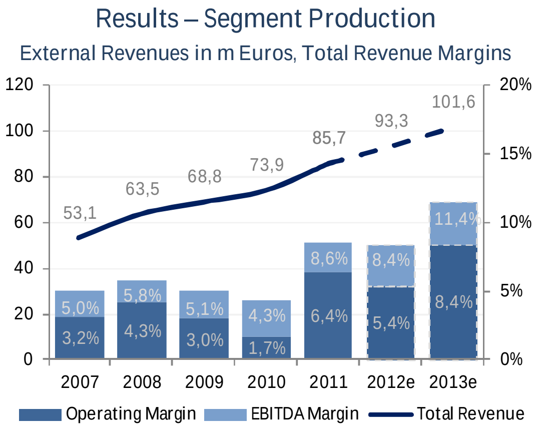
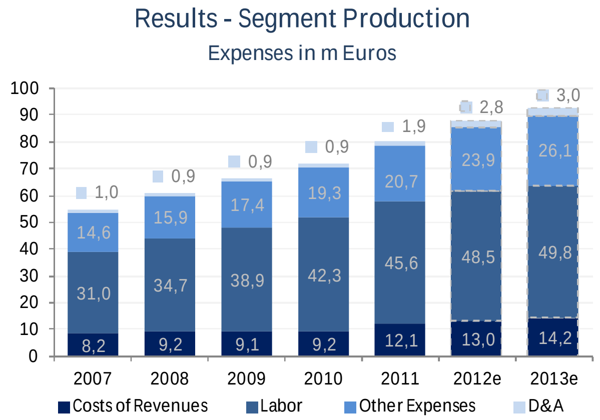
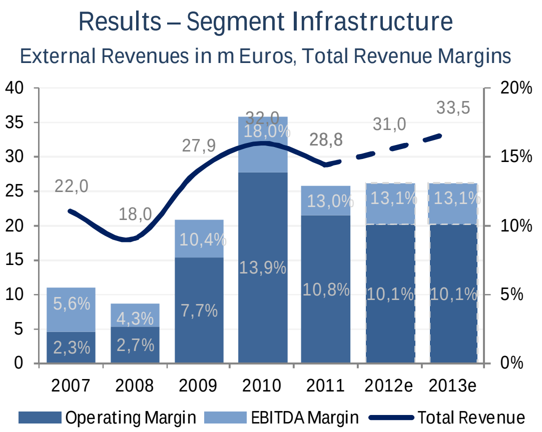


Source: PSI AG, Dr. Kalliwoda Research



Source: PSI AG, Dr. Kalliwoda Research

Revenues in the production segment increased by 16.8% to €78.6m, while the operating income rose to €5.5m from €1.3m. Whereas last year's result were influenced by R&D expenditures in PSImining, this year's result included the gains from the product with which it successfully entered the Chinese market. Top Management however was not satisfied with total sales triggering to a switch in the management team in China. New orders of PSImining are expected within the next months in China and from the regions of Australia and Russia. PSI finished pilot projects of product solutions that increase the efficiency of resource usage in the production of turbines, enabling it to profit from the growing demand of energy. For the automobile producers and suppliers PSI improved its existing product with respect to sequence optimizations. The system is currently supplied to thirty production locations worldwide. PSI management notes that many customers already signaled interest in a product upgrade.



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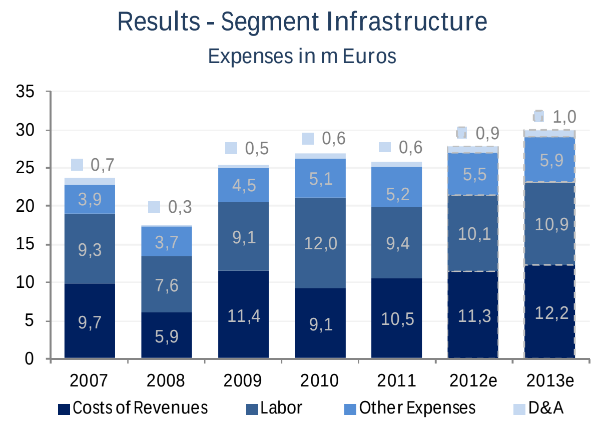
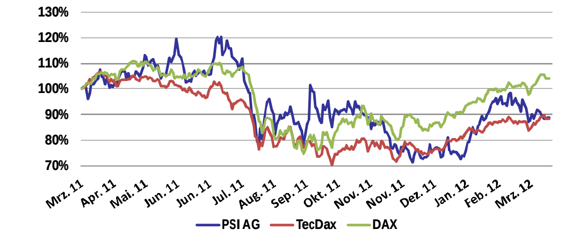


Source: PSI AG, Dr. Kalliwoda Research

When looking at the performance of the infrastructure segment keep in mind the sold telecommunications unit at the end of 2010. Adjusting these effects revenues came increased slightly to €22.1m. However earnings disappointed at €3.1m. The segment should profit further in the near-term from developing countries' population growth and the stable trend of urbanization. This together with an increasing usage of cars will prove a burden on existing traffic networks. Through its subsidiary PSIincontrol it already has a distribution base in Southeast Asia.

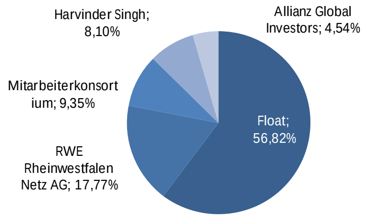
5. Stock and Shareholder Structure

Stock Price Development



Source: Reuters, Dr. Kalliwoda Research

Shareholder Structure



Source: PSI AG

The stock dropped 10% within the last twelve months, giving it the same performance as its benchmark TecDax which is below 15% of the overall market performance measured by the DAX. The management pursues an intensive capital market communication performing numerous road-shows and attending investor conferences. PSI positions itself as a company with a sustainable strategy in the Clean-Tech investment area. In the year 2011 the company succeeded with entry in the index TecDax.

6. Conclusion

We view the company’s current development in line with our expectations and the outlook given in our investment case remains intact. As a result our valuation based on the DCF remains unchanged with a target price of €20.01 for the next twelve months. Compared to the current stock price level our rating approach results in the recommendation BUY. We see the main risk to our investment case in the company not living up to the expected success in within the German energy infrastructure segment.

7. Financials

7.1.Profit & Loss Statements

Profit & Loss Statement

Fiscal Year Figures in mio. €	2007	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e	2017e
Revenues	**123**	**129**	**147**	**159**	**170**	**181**	**208**	**228**	**247**	**264**	**280**
Other Revenue	3	2	4	7	5	5	6	7	7	8	8
Total Revenue	**126**	**131**	**151**	**165**	**175**	**186**	**214**	**235**	**254**	**272**	**288**
Costs of Materials	(26)	(22)	(28)	(26)	(31)	(32)	(34)	(38)	(42)	(45)	(48)
Labor Costs	(72)	(75)	(84)	(94)	(96)	(102)	(110)	(118)	(125)	(130)	(136)
Other Operating Expenses	(22)	(25)	(27)	(31)	(33)	(32)	(36)	(40)	(43)	(46)	(49)
Depreciation and Amortization	(3)	(3)	(4)	(4)	(4)	(7)	(7)	(8)	(9)	(10)	(10)
Operating Income	**4**	**6**	**8**	**10**	**11**	**14**	**26**	**31**	**35**	**41**	**45**
Financial Profit / Loss	(1)	(1)	(1)	(2)	(2)	0	0	0	0	1	1
Earnings Before Taxes	**3**	**5**	**7**	**8**	**9**	**14**	**26**	**32**	**36**	**42**	**46**
Provisions for Income Tax	(1)	(1)	(0)	(1)	(1)	(4)	(8)	(10)	(11)	(13)	(14)
Net Incom After Taxes	**2**	**4**	**7**	**7**	**7**	**10**	**18**	**22**	**25**	**29**	**32**
Minority Interest	--	--	--	--	--	--	--	--	--	--	--
Extraordinary Items and Adjustments	--	--	--	--	--	--	--	--	--	--	--
Net Income	**2**	**4**	**7**	**7**	**7**	**10**	**18**	**22**	**25**	**29**	**32**
Profit & Loss (Growth Rate YoY)											
Revenues	**5%**	**5%**	**14%**	**8%**	**7%**	**6%**	**15%**	**10%**	**8%**	**7%**	**6%**
Other Revenue	5%	(23%)	47%	85%	(24%)	6%	15%	10%	8%	7%	6%
Total Revenue	**5%**	**4%**	**15%**	**10%**	**6%**	**6%**	**15%**	**10%**	**8%**	**7%**	**6%**
Costs of Materials	7%	(14%)	28%	(8%)	19%	1%	8%	10%	11%	7%	6%
Labor Costs	1%	5%	11%	13%	2%	7%	8%	7%	5%	4%	5%
Other Operating Expenses	3%	15%	9%	14%	7%	(4%)	15%	10%	8%	7%	6%
Depreciation and Amortization	(0%)	(15%)	38%	22%	(10%)	65%	7%	15%	10%	8%	7%
Operating Income	**288%**	**53%**	**25%**	**22%**	**12%**	**32%**	**85%**	**21%**	**13%**	**17%**	**9%**
Financial Profit / Loss	(19%)	(15%)	(9%)	88%	19%	n.m.	96%	25%	22%	22%	22%
Earnings Before Taxes	**n.m.**	**80%**	**32%**	**13%**	**11%**	**63%**	**85%**	**21%**	**13%**	**17%**	**9%**
Provisions for Income Tax	n.m.	6%	(70%)	143%	54%	234%	85%	21%	13%	17%	9%
Net Incom After Taxes	**337%**	**122%**	**59%**	**7%**	**6%**	**34%**	**85%**	**21%**	**13%**	**17%**	**9%**
Minority Interest	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Extraordinary Items and Adjustments	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net Income	**337%**	**122%**	**59%**	**7%**	**6%**	**34%**	**85%**	**21%**	**13%**	**17%**	**9%**
Profit & Loss (% of Total Revenues)											
Revenues	**97%**	**98%**	**98%**	**96%**	**97%**	**97%**	**97%**	**97%**	**97%**	**97%**	**97%**
Other Revenue	3%	2%	2%	4%	3%	3%	3%	3%	3%	3%	3%
Total Revenue	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Costs of Materials	(20%)	(17%)	(19%)	(16%)	(18%)	(17%)	(16%)	(16%)	(17%)	(17%)	(17%)
Labor Costs	(57%)	(57%)	(56%)	(57%)	(55%)	(55%)	(52%)	(50%)	(49%)	(48%)	(47%)
Other Operating Expenses	(17%)	(19%)	(18%)	(19%)	(19%)	(17%)	(17%)	(17%)	(17%)	(17%)	(17%)
Depreciation and Amortization	(2%)	(2%)	(2%)	(3%)	(2%)	(4%)	(3%)	(3%)	(3%)	(4%)	(4%)
Operating Income	**3%**	**5%**	**5%**	**6%**	**6%**	**8%**	**12%**	**13%**	**14%**	**15%**	**16%**
Financial Profit / Loss	(1%)	(1%)	(1%)	(1%)	(1%)	0%	0%	0%	0%	0%	0%
Earnings Before Taxes	**2%**	**4%**	**5%**	**5%**	**5%**	**8%**	**12%**	**14%**	**14%**	**15%**	**16%**
Provisions for Income Tax	(1%)	(1%)	(0%)	(1%)	(1%)	(2%)	(4%)	(4%)	(4%)	(5%)	(5%)
Net Incom After Taxes	**1%**	**3%**	**4%**	**4%**	**4%**	**5%**	**9%**	**9%**	**10%**	**11%**	**11%**
Minority Interest	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Extraordinary Items and Adjustments	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Net Income	**1%**	**3%**	**4%**	**4%**	**4%**	**5%**	**9%**	**9%**	**10%**	**11%**	**11%**

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7.2. Balance Sheet

Balance Sheet											
Fiscal Year Figures in mio. €	2007	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e	2017e
Assets											
Current assets											
Cah and Cash Equivalents	19	24	21	29	34	34	42	50	60	72	85
Receivables	41	46	66	65	69	74	85	93	101	108	114
Inventory	1	2	3	3	4	4	4	5	5	6	6
Prepaid Expenses	--	1	1	1	1	1	1	1	2	2	2
Other Current Assets	3	2	3	6	3	3	3	4	4	4	4
Sum current assets	64	74	94	104	110	116	136	153	172	192	212
Non-current assets											
Property, Plant and Equipment	**8**	**8**	**9**	**14**	**14**	**15**	**18**	**19**	**21**	**23**	**24**
Intangible Assets	2	2	5	3	2	2	3	3	3	4	4
Goodwill	13	16	44	44	44	44	44	44	44	44	44
Long Term Investments	0	0	0	0	0	0	0	0	0	0	0
Defered Income Taxes	4	2	3	4	4	4	4	4	4	4	4
Other Long Term Assets	0	0	0	0	0	0	0	0	0	0	0
Sum Non-Current Assets	**26**	**29**	**61**	**65**	**65**	**66**	**69**	**71**	**73**	**75**	**76**
Total Assets	**91**	**103**	**155**	**169**	**176**	**182**	**205**	**224**	**244**	**266**	**288**
Equity and Liabilities											
Current Liabilities											
Accounts Payable	9	10	15	15	17	17	20	22	24	26	28
Accruals	--	14	19	22	22	23	25	27	29	30	31
Short Term Debt	0	0	2	2	2	0	0	0	0	0	0
Other Current Liabilities	22	16	20	20	26	28	32	35	38	41	43
Sum Current Liabilities	**32**	**40**	**55**	**60**	**67**	**68**	**77**	**84**	**91**	**97**	**102**
Non-Current Liabilities											
Non-Current Loans	0	0	1	6	1	1	1	1	1	1	1
Deferred Tax Liabilities	2	2	2	2	2	2	2	2	2	2	2
Other Non-Current Liabilities	27	27	30	34	32	32	32	32	32	32	32
Sum Non-Current Liabilities	**29**	**29**	**33**	**41**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
Shareholders' Equity											
Subscribed Capital	63	62	75	75	75	75	75	75	75	75	75
Retained eamings	-33	-28	-9	-7	-2	4	17	29	43	59	75
Other Equity	--	--	--	--	--	--	--	--	--	--	--
Sum Equity	**29**	**34**	**66**	**68**	**73**	**79**	**92**	**105**	**118**	**134**	**151**
Total Equity and Liabilities	**91**	**103**	**155**	**169**	**176**	**182**	**205**	**224**	**244**	**266**	**288**

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Company Analysis

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7.3. Cash Flow Statement

Cash Flow Statement

Fiscal Year Figures in mio. €	2007	2008	2009	2010	2011	2012e	2013e	2014e	2015e	2016e	2017e
1. Cash from Operating Activities											
Net Profit before Tax	**3**	**5**	**7**	**8**	**9**	**14**	**26**	**32**	**36**	**42**	**46**
Amortization and Depreciation	3	3	4	4	4	7	7	8	9	10	10
Non-cash Items	(1)	(0)	(0)	1	0	0	0	0	0	0	0
Change in Working Capital	(2)	2	(6)	0	2	(7)	(11)	(12)	(13)	(15)	(16)
Cash from Operating Activities	**3**	**10**	**4**	**13**	**15**	**14**	**22**	**28**	**32**	**36**	**40**
2. Cash from Investment Activities											
Capital Expenditures	(2)	(2)	(3)	(7)	(4)	(8)	(10)	(10)	(11)	(11)	(12)
Other Investing Cash Flow Items	2	(2)	(13)	0	2	0	0	0	0	0	0
Cash from Investment Activities	**1**	**(5)**	**(16)**	**(7)**	**(2)**	**(8)**	**(10)**	**(10)**	**(11)**	**(11)**	**(12)**
3. Cash from Financing Activities											
Financing Cash Flow Items	--	(1)	6	0	--	0	0	0	0	1	1
Dividends Paid Out	--	--	--	(3)	(4)	(4)	(5)	(10)	(12)	(13)	(15)
Issuance (Retirement) of Stock	--	--	3	0	(1)	0	0	0	0	0	0
Issuance (Retirement) of Debt	0	0	(0)	5	(5)	(2)	0	0	0	0	0
Cash from Financing Activities	**0**	**(1)**	**9**	**1**	**(9)**	**(6)**	**(5)**	**(9)**	**(11)**	**(13)**	**(15)**
4. Cash at End of Period											
Changes in Cash	4	5	(3)	8	5	0	8	8	10	12	13
Cash at Beginning of Period	15	19	24	21	29	34	34	42	50	60	72
Cash at End of Period	**19**	**24**	**21**	**29**	**34**	**34**	**42**	**50**	**60**	**72**	**85**

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8. Valuation

8.1.DCF-Model

In order to determine the fair value, we established a three-stage discounted cash flow model and used market data for peer group companies. All data are based on the consolidated financial statements.

Through discounting operative free cash flows to the valuation date we accommodated the during the period valuation date. As the valuation date we chose the first of March 2012. As far as non-operating assets are concerned, their value was derived separately and added to the present value of payouts.

Tying in with this, the phase of terminal value follows, for which we calculated with a growth rate of 2.5% p.a.

/ Discounted Cash Flow-Modell (Basis 3/2012)

	Phase 1					
(m EUR)	2012e	2013e	2014e	2015e	2016e	2017e
Total Revenues	**186**	**214**	**235**	**254**	**272**	**288**
Rate of change	10%	15%	10%	8%	7%	6%
EBIT	**14**	**26**	**31**	**35**	**41**	**45**
Rate of change	32%	85%	21%	13%	17%	9%
Margin	8%	12%	13%	14%	15%	16%
Interest and Shareholding Income	**0**	**0**	**0**	**0**	**1**	**1**
EBT	14	26	32	36	42	46
Operational tax expenses	**-4**	**-8**	**-10**	**-11**	**-13**	**-14**
Effective Tax Rate (ex. Interest Income)	30%	30%	30%	30%	30%	30%
Depreciation and Amortization	**7**	**7**	**8**	**9**	**10**	**10**
Depreciation Ratio (% Revenues)	4%	3%	3%	3%	4%	4%
Changes in long-term provisions	**0**	**0**	**0**	**0**	**0**	**0**
Proportion of Revenues	-	-	-	-	-	-
Change in Working Capital	**-7**	**-11**	**-12**	**-13**	**-15**	**-16**
Working-Capital-Ratio (%Revenues)	-4%	-5%	-5%	-5%	-6%	-6%
Investments into fixed assets	**-8**	**-10**	**-10**	**-11**	**-11**	**-12**
Investments ratio (% Revenues)	-4%	-5%	-4%	-4%	-4%	-4%
Other	**0**	**0**	**0**	**0**	**0**	**0**
Free Cash-Flow	**2**	**5**	**8**	**11**	**12**	**14**

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8.2. WACC

The discount rate was calculated by deriving the weighted average cost of capital. We assume that the target capital structure will not change in the subsequent business years.

WACC Assumptions	
Growth Propositions	
Long-Term growth rate / Inflation	2,5%
Assimilation Phase (from 2015)	5 Jahre
Revenue growth in the beginning	6,0%
Margin development (p.a.)	+3 BP
Equity Cost	
Long-Term risk-free rate	3,0%
Market Risk Premium	6,0%
Beta of the Company	1,10
Equity Cost	**9,6%**
Debt Cost	
Debt Cost (before tax)	7,0%
Tax rate on Debt interest	30,0%
Debt Cost (after tax)	**4,9%**
Equity Value	266
Market Value of Debt	3
Gearing (Market Values)	1,2%
WACC	**9,55%**

Adjustments for debt to current interest were not made. Risk free profitability is based on the average profitability of the 30-year treasury bond.

Figuring a risk prime follows the capital asset pricing model (CAPM) and covers in particular the systemic risks (market risk prime esp. company specific risk). The beta value we used to identify the company specific risk is based on the performance of the reference index DAX.

8.3. Fair Value – Sensitivstes

Our derived fair value per share amounts to EUR 20.01. The modification of the action parameter in terminal value is shown below in the sensitivity analysis. It shows variance in our derived fair value in variant scenarios.

Sensitivity analysis		Fair value per share				
	(EUR)	Discount rate				
	ß = 1,1	9,05%	9,30%	9,55%	9,80%	10,05%
Groth	1,5%	20,49	19,62	18,82	18,06	17,35
	2,0%	21,17	20,24	19,37	18,57	17,81
	2,5%	21,95	20,94	**20,01**	19,14	18,33
	3,0%	22,87	21,76	20,74	19,80	18,92
	3,5%	23,95	22,72	21,60	20,56	19,61

Sensitivity analysis		Market capitalization				
	(EUR m)	Discount rate				
	ß = 1,1	9,05%	9,30%	9,55%	9,80%	10,05%
Groth	1,5%	321	308	295	283	272
	2,0%	332	317	304	291	279
	2,5%	344	328	**314**	300	288
	3,0%	359	341	325	311	297
	3,5%	376	356	339	323	308

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